

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05
CEA-01 L-03 H-02 PA-02 PRS-01 /113 W
-----084681 021222Z /12

P R 020952Z NOV 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 2477
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC
USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- OCT 28-NOV 2

1. SUMMARY: YEN SETS NEW RECORD HIGH AT 245.20. PRIME
MINISTER PUSHES FOR FASTER IMPLEMENTATION OF LARGER EMERGENCY
IMPORT PROGRAM AS CONCERN ABOUT HIGH YEN MOUNTS. RESERVES
RISE \$1.7 BIL; SPECULATIVE CAPITAL INFLOWS PUT AT \$2 BIL
DURING OCT. DIVERGENT TRENDS FORGROWTH OF MONETARY AGGREGATES
DURING SEPT; QUARTERLY FIGURES SHOW ACCLERATED GROWTH.
NEW CONSTRUCTION ORDERS SLIP IN SEPT BUT UP STRONGLY IN
WHOLE THIRD QUARTER. END SUMMARY.

2. THE YEN CONTINUED TO SET RECORD HIGHS IN THE LATEST
WEEK, REACHING A PEAK LEVEL OF 245.20 IN MORNING TRADING
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ON NOV 2 BEFORE EASING LATER IN THE DAY. THE
LATEST UPWARD SURGE FOLLOWED THE SHARP
REVALUATION OF STERLING MONDAY, OCT 31, AND REPORTS THAT
FOREIGN BANKERS THOUGHT THE YEN COULD CLIMB TO 240 TO THE
DOLLAR. TRADING WAS QUITE ACTIVE THROUGHOUT THE WEEK.
BANK OF JAPAN (BOJ) IS REPORTED BY THE PRESS TO HAVE
INTERVENED INTERMITTENTLY TO STEADY THE RISE BY BUYING \$200

MIL ON THURS, OCT 27, AN INDETERMINATE AMOUNT ON OCT 28,
ANOTHER \$200 MIL ON NOV 1 AND A LARGE BUT UNSPECIFIED
AMOUNT ON NOV 2.

THE RISING YEN CONTINUES TO CAUSE THE GOVT CONCERN.
ON FRIDAY, OCT 28, FINANCE MINISTER BOH REFERRED TO THE
SITUATION AS "GRAVE." ON MONDAY BOH WAS QUOTED AS SAYING
"THE YEN'S UPTURN IS GAINING TOO MUCH VIGOR."
OVER THE WEEKEND THE KOMEITO PARTY PROPOSED A NINE-POINT
PROGRAM TO HELP STABILIZE THE YEN THAT INCLUDED, AMONG
OTHER THINGS, A CALL FOR INTERNATIONAL TALKS TO
PREVENT AN INTERNATIONAL MONETARY CRISIS AND ACTIVE
STEPS BY THE BOJ TO HALT SPECULATIVE CAPITAL INFLOWS.
FOLLOWING REPORTS OF SOME SLIPPAGE IN THE
IMPLEMENTATION OF GOVT PROGRAMS TO REDUCE THE PAYMENTS
SURPLUS, PRIME MINISTER FUKUDA AGAIN CALLED IN HIS
PRINCIPAL ECONOMIC MINISTERS ON TUESDAY AND TOLD THEM TO
EXPEDITE THE EMERGENCY PROGRAM DESIGNED TO REDUCE THE TRADE
SURPLUS. THE PRIMIN REPORTEDLY NOW WANTS THE PROGRAM TO
REDUCE THE SURPLUS BY \$3 BIL.

3. AS REPORTED TOKYO 16907, JAPANESE OFFICIAL RESERVES
ROSE \$1,709 MIL DURING OCT AND STOOD AT \$19,577 MIL
AT MONTH-END.

4. ACCORDING TO PRESS ACCOUNTS, THE YEN SHIFT, WHICH
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HAD BEEN RUNNING AT A \$200-300 MIL PER MONTH RATE
LATE IN THE SUMMER, GROUND TO A HALT IN OCT. A WIDENING
FORWARD PREMIUM ON THE YEN AND EXPECTATION OF FURTHERHYEN
APPRECIATION ARE GENERALLY CITED AS THE REASONS FOR THE
HIATUS IN SHIFTING TO YEN FINANCING OF JAPANESE TRADE
DESPITE THE WIDENING GAP BETWEEN DOLLAR AND YEN SHORT-TERM
INTEREST RATES. WITH YHFORWARD PREMIUM ON YEN RISING TO
2.0-3.5 PERCENT PER ANNUM, TRADERS FOUND MUCH OF THE
ADVANTAGE OF CHEAPER YEN INTEREST RATES WIPED OUT. IN ADDITION,
EXPECTATION OF FURTHZR YEN APPRECIATION HAS APPARENTLY
PROMPTED FIRMS TO DELAY REPAYMENT OF DOLLAR LIABILITIES.

ALTHOUGH OFFICIAL STATISTICS ARE NOT AVAILABLE,
PRESS STORIES INDICATE THAT FOREIGNERS MAY HAVE BOUGHT NET
ABOUT \$1 BIL IN SHORTTERM JAPANESE GOVT SECURITIES DURING OCT.
IN ADDITION, IT IS SPECULATED FOREIGNERS MAY HAVE ADDED
ANOTHER \$1 BIL TO THEIR HOLDINGS OF YEN BANK DEPOSITS OR OTHER
SHORT-TERM SECURITIES. PRESS STORIES ALSO INDICATE JAPANESE
INSURANCE FIRMS, WHICH HAD BEEN DIVERSIFYING THEIR
PORTFOLIOS AWAY FROM A DOMINANTLY YEN POSITION, ARE
REPORTED TO HAVE HALTED FOREIGN PURCHASES IN RECENT WEEKS,
AWAITING A CLEARER READING OF EXCHANGE RATE TRENDS.

SOME FOREIGN YEN BOND FLOTATIONS SCHEDULED FOR THE
BALANCE OF 1977 ARE ALSO REPORTED TO BE BEING HELD IN
ABEYANCE PENDING A CLEARER OUTLOOK FOR FOREIGN EXCHANGE
RATES. NEW ZEALAND, WHICH POSTPONED AN OCT BOND ISSUE, HOWEVER
HAS AGREED TO NEW TERMS FOR AN EARLY 27 BIL YEN LOAN.

ACCORDING TO PRESS STORIES FOREX BANKS HAVE ASKED THE
GOVT TO CONSIDER MEASURES TO STEM THE INFLOW OF SPECULATIVE
FUNDS. THE MEASURES REQUESTED ARE REPORTED TO INCLUDE SUS-
PENSION OF SALES OF SHORT-TERM YEN BILLS TO NON-RESIDENTS
AND AN INCREASE IN THE RESERVE REQUIREMENTS ON FREE YEN
DEPOSITS.

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5. GROWTH IN MONEY SUPPLY, SEASONALLY ADJUSTED, SHOWED A
MIXED PICTURE IN SEPT. THIRD QUARTER FIGURES, HOWEVER,
SHOW A QUICKENED RATE OF MONETARY GROWTH. NARROWLY DEFINED
MONEY SUPPLY, M-1, DECLINED FOR SECOND STRAIGHT MONTH IN
SEPT, DOWN 1.0 PERCENT FROM PRIOR MONTH. HOWEVER, BROADLY
DEFINED MONEY SUPPLY, M-2 AND M-3, BOTH RECORDED FASTER
GROWTH IN SEPT THAN IN AUG. FOR JUL-SEPT QUARTER,
M-1 REBOUNDED, RISING BY 4.6 PERCENT OVER PRIOR QUARTER'S
LEVEL IN CONTRAST TO THE DECLINE OF 1.1 PERCENT IN THE
SECOND QUARTER. GRWOTH IN M-2 AND M-3 BOTH ACCELERATED
DURING THE THIRD QUARTER AND RECORDED QUARTERLY ADVANCES
OF 3.3 PERCENT AND 3.7 PERCENT, RESPECTIVELY. BANK LOANS

AND DISCOUNTS AND CONTRIBUTING FACTORS TO CHANGES IN MONEY
SUPPLY (M-2, N.S.A.) FOR SEPT NOT YET AVAILABLE. (NOTE:
EMBASSY WILL TRANSMIT NEW MONEY SUPPLY INDICATOR , M-3, ON
CONTINUOUS BASIS. M-3 REPRESENTS M-2 PLUS SAVINGS
DEPOSITS WITH POSTAL OFFICES, AGRICULTURE AND FISHERY
COOPERATIVES, CREDIT COOPERATIVES, NATIONAL FEDERATION
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OF LABOR CREDIT ASSOCIATIONS, ETC.)

MONEY AND CREDIT, SEASONALLY ADJUSTED
(BIL YEN; PERCENT CHANGE FROM PRIOR PERIOD IN PAREN)

M-1 (JEI 123) M-2 (JEI 126) M-3

RECENT QUARTERS (MONTHLY AVERAGE):

1976-OCT-DEC 53,176 (2.8) 137,519 (2.8) 203,977 (3.3)

1977-JAN-MAR 53,405 (0.4) 140,897 (2.5) 209,985 (3.0)

APR-JUN 52,799 (-1.1) 144,178 (2.3) 216,732 (3.2)

JUL-SEPT 55,222 (4.6) 148,977 (3.3) 224,640 (3.7)

RECENT MONTHS:

JUL 55,798 (3.9) 148,646 (1.9) 223,139 (1.6)

AUG 55,207 (-1.0) 148,686 (0) 224,179 (0.5)

SEPT 54,662 (-1.0) 149,598 (0.6) 226,602 (1.1)

6. NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED, DECINED
IN SEPT BUT FOR JUL-SEPT QUARTER AS A WHOLE INCREASED
SHARPLY, REFLECTING GOVT POLICY OF ACCELERATING PUBLIC WORKS.
IN SEPT ORDRS PLACED BY GOVT AND PUBLIC AGENCIES DROPPED
2.2 PERCENT FROM PRIOR MONH AFTER 22.3 PERCENT ADVANCE IN
AUG. PRIVATE CONSTRUCTION ORDERS DECLINED FOR SECOND
STRAIGHT MONTH IN SEPT THOUGH RATE OF DECLINE SLOWED TO 1.2
PERCENT FROM 4.4 PERCENT IN AUG. FOR JUL-SEPT QUARTER, PUBLIC
CONSTRUCTION ORDERS ACCELERATED RAPIDLY AND ROSE BY 20.4
PERCENT OVER PRIOR QUARTER'S LEVEL FOLLOWING 2.4 PERCENT
GROWTH IN THE SECOND QUARTER. PRIVATE CONSTRUCTION
ORDERS, HOWEVER, DETERIORATED FURTHER DURING JUL-SEPT
QUARTER AND DROPPED 5.0 PERCENT FRM SECOND QUARTER.
PRIVATE CONSTRUCTION ORDERS CONTINUED TO DECLINE THROUGH-
OUT THE FIRST THREE QUARTERS OF THIS YEAR.

NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED
(BIL YEN: PERCENT CHANGE FROM PRIOR PERIOD IN PAREN)

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GOVT/PUBLIC PRIVATE
(JEI 324) (JEI 325)

RECENT QUARTERS (MONTHLY AVERAGE):

1976: OCT-DEC 206.1 (-6.3) 272.2 (10.8)

1977: JAN-MAR 235.1 (14.1) 268.3 (-1.4)

APR-JUN 240.8 (2.4) 265.5 (-1.1)

JUL-SEPT 289.9 (20.4) 252.1 (-5.0)

RECENT MONTHS:

JUL 254.4 (-2.9) 260.8 (14.8)

AUG/REV 311.1 (22.3) 249.3 (-4.4)

SEPT PREL 304.1 (-2.2) 246.3 (-1.2)

7. SECONDARY BOND MARKET SHOWED A MIXED PICTURE IN OCT. YIELDS OF GOVT OF JAPAN (GOJ) BONDS AND NIPPON TELEPHONE AND TELEGRAPH (NTT) BONDS DROPPED IN OCT BUT INDUSTRIAL BOND YIELD CONTINUED TO RISE. GOJ BOND YIELDS DROPPED TO 6.7 PERCENT PER ANNUM LEVEL IN OCT AFTER INCREASES IN PRECEDING TWO MONTHS. NTT BOND YIELD ALSO EDGED DOWN, THOUGH LESS RAPIDLY THAN GOJ BONDS. NTT BONDS HAVE STAYED IN THE 6.9 PERCENT RANGE FOR THE LAST THREE MONTHS.

SECONDARY MARKET BOND YIELDS

(ANNUAL RATE, IN PERCENT)

END OF MONTH	GOVT BONDS	TEL & TEL BONDS	INDUSTRIAL BONDS
JUL	6.748	6.811	7.009
AUG	6.816	6.920	7.103
SEPT	6.862	6.962	7.126
OCT	6.720	6.943	7.291

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 02-Nov-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TOKYO17002
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770403-0400
Format: TEL
From: TOKYO EEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197711103/aaaadkfw.tel
Line Count: 251
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: aee9270e-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 395810
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS -- OCT 28-NOV 2
TAGS: EFIN, JA
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/aee9270e-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009